

Michigan Department of Treasury
408 (2-04)**Auditing Procedures Report**

Issued under P.A. 2 of 1988, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BENTON HARBOR HOUSING COMMISSION		County BERRIEN
Audit Date 9/30/04		Opinion Date 6/7/05		Date Accountant Report Submitted to State: 12/8/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

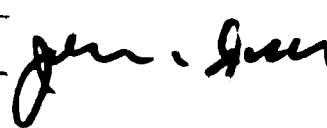
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☒ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 198 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>		

Certified Public Accountant (Firm Name) JOHN C DIPIERO, CPA, PC			
Street Address 397 SANDRIDGE DRIVE		City HEMLOCK	State MI
Accountant Signature 		ZIP 48626	Date 12/8/05

BENTON HARBOR HOUSING COMMISSION

Financial Statements

September 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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**BENTON HARBOR HOUSING COMMISSION
BENTON HARBOR, MICHIGAN**

Management's Discussion And Analysis (MD&A)

The Benton Harbor Housing Commission's management discussion and analysis of the BHHC financial statements including a narrative overview and discussion of the financial activities of the BHHC for years and periods ending September 30, 2003 vs. September 30, 2004.

The MD&A is specifically designed to: 1.) assist the reader in focusing on significant financial issues; 2.) provide a broad scope overview of the BHHCs financial activities; 3.) identify and explain changes in the BHHC's financial position from 2003 to 2004; and 4.) highlight any individual funding source issues or concerns.

Since the MD&A is designed to present basic financial in a narrative, executive summary format, the reader is encouraged to consider the information presented here in conjunction with the BHHC's audited financial statements.

Questions concerning any of the information provided in this report or request for additional information should be addressed to Ms. Juanita Gibbs, Executive Director, Benton Harbor Housing Commission, 721 Nate Wells Dr., Benton Harbor, MI 49022

This MD&A is intended to serve as an introduction to the Housing Commission's basic financial statements. The Housing Commission is a special-purpose government engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (a) fund financial statements and (b) a series of notes to the financial statements. These provide information about the activities of the Housing Commission as a whole and present a longer-term view of the Housing Commission's finances. This report also contains other supplemental information in addition to the basic financial statements themselves demonstrating how projects funded by HUD have been completed.

Reporting On The Housing Commission As A Whole

One of the most important questions asked about the Commission's finances are, "Is the Housing Commission as a whole better off, or worse off, as a result of the achievements of fiscal year 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Housing Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Financial Highlights

- BHHC's assets exceed its liability by \$8,228,339
- Capital Assets grew by \$119,971 without the implication of accumulated depreciation
- Agency revenues diminished by \$158,959 including Capital Funds dollars
- The collective effect on operating expense of 2003 vs. 2004 was only a 3.9% increase
- Net assets declined by \$665,881 from 2003 to 2004 because of reduction of unrestricted assets by \$1,335,420.

Fund Financial Statements

All of the funds of the Housing Commission are reported as proprietary funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Commission, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Housing Commission's financial statements report its net assets and changes in them. One can think of the Housing Commission's net assets - the difference between assets and liabilities - as one way to measure the Commission's financial health, or financial position. Over time, increases and decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors, however, such as the changes in the Commission's occupancy levels or its legal obligations to HUD, to assess the overall health of the Housing Commission.

Using This Annual Report

The Housing Commission's annual report consists of financial statements that show combined information about the Housing Commission's most significant funds, the Low Rent Housing Program, Section 8 Housing Choice Voucher Program and Public Housing Capital Fund Program.

The Housing Commission auditors provided assurance in their independent auditors' report, located immediately preceding the MD&A, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

Reporting The Housing Commission's Most Significant Funds

The Housing Commission's financial statements provide detailed information about the most significant funds. Some funds are required to be established by the Department of Housing and Urban Development (HUD). However, the Housing Commission establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

The Housing Commission's enterprise funds use the following accounting approach for Proprietary funds. All of the Housing Commission's services are reported in enterprise funds. The focus of proprietary funds is on income measurement, which, together with the maintenance of net assets, is an important financial indicator. The statements evaluated include:

- Statement of Net Assets – reports the Commission's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statement of Cash Flows – reports the net change in cash and cash operating activities. Noncapital financing activities, capital and related financing activities, and from investing activities.

The following analysis of the entity wide financial statement is provided to assist the reader of our financial statements.

The BHHC maintains its books and records utilizing the accrual basis of accounting. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

The following is a description of the programs and services that the authority provides for the residents of the Benton Harbor Housing Commission:

Low Income Public Housing

The BHHC owns approximately 370 units in five developments in the City of Benton Harbor. The 370 units owned by the Commission consist of family and mixed population units. The Commission is responsible for the management, maintenance and utilities for all units and sites. On an annual basis, the Commission submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Commission has an allowable Operating Expense Level, Allowable utilities Expenses Level and Audit Costs that becomes the Commissions Total Allowable Expenses. HUD will fund the difference between the Total Allowable Expenses and the amount of rents that the Authority can charge their tenants based upon HUD eligibility calculation. The funds are utilized to provide safe, affordable, clean housing to the residents of the City of Benton Harbor, Michigan.

Section 8 Housing Choice Voucher Program

This grant program provides Housing Assistance Payments to Landlords who participate in the program. Qualifying tenants to the program have their income analyzed utilizing HUD's guidelines and their rent are assessed accordingly. The balance between the differences of the allowable rent amount set by HUD and the tenant's contribution is equal to the Housing Assistance Payment. BHHC's current program consists of 128 slots.

Capital Fund Program

This grant program is awarded by HUD on an annual basis. The purposes of this grant is to maintain the physical improvements of the Commission's sites and the administrative management to ensure those improvements are completed in the most effective and efficient manner. The Commission requisitions funds from HUD as the Commission expends funds.

Commission-Wide Condensed Financial Statements

Statement of Net Assets

Current & Other Assets	2004	2003	Change
Cash	29,164	147,959	(118,795)
Other Current Assets	602,304	1,067,854	(465,550)
Capital Assets (Net)	8,190,829	8,727,496	(536,667)
Total Assets	8,822,297	9,943,309	(1,121,012)
Liabilities			
Accounts Payable	145,787	61,880	83,907
Current Liabilities	384,693	959,885	(575,192)
Non Current Liabilities	63478	27324	36,154
Total Liabilities	593,958	1,049,089	(455,131)
Net Assets			
Net Investment In Capital Assets	8,190,829	7,521,288	669,541
Unrestricted	37,510	1,372,932	(1,335,422)
Total Net Assets	8,228,339	8,894,220	(665,881)

Major Factors affecting the statement of Net Assets

Total Assets for FYE 2004 are \$8,822,297 and at FYE 2003 the amount was \$9,943,309. This represents a decrease of \$1,121,012 for which the major reasons were the addition to accumulated depreciation of \$656,642, an 80% reduction in cash and a reduction of interprogram funds due by \$296,549.

Total liabilities decreased by \$455,131 with the major impact due to interprogram payables which diminished by \$296,549.

Net Assets declined by \$665,881 from 2003 to 2004 with the reason being accumulated depreciation. The negative note from the decline was the decrease of unrestricted net assets by \$1,335,422 which is primarily retained earnings.

Statement of Agency Wide Revenues, Expenses, and Net Assets

Statement of Revenues

Source	2004	2003	Change
Public Housing Rental	642,558	653,789	(11,231)
HUD Operating Subsidy	1,317,497	1,376,131	(58,634)
HUD Capital Fund	467,021	675,772	(208,751)
Other Income	154,639	34,982	119,657
Total Revenues	2,581,715	2,740,674	(158,959)

The major impact to revenues for 2004 was the small amount of capital funds utilized during the year. The decrease was \$208,751 less in 2004.

Statement of Expenses

Activity	2004	2003	Change
Administrator	834,889	745,915	88,974
Tenant Services	39798	111637	(71,839)
Utilities	324,267	295,516	28,751
Maintenance	720,280	726,540	(6,260)
Housing Assistance Payment	488,069	436,550	51,519
Depreciation	656,642	627,536	29,106
General Expenses	252,063	242,606	9,457
Total Expenses	3,316,008	3,186,300	129,708

The total increase in operating expense from 2003 to 2004 was \$129,708 which is only a 3.9% increase. A majority of the difference were increases in administrative salaries, utility cost and housing assistance payments.

The combination of a reduction in revenues by \$158,959 and an increase in operating expenses by \$129,708 resulted in a net operating loss of \$288,667 from 2003 vs. 2004.

Statement of Capital Assets

Source	2004	2003	Change
Land	121,807	121,807	0
Buildings	9,000,421	9,000,421	0
Equipment - Admin	415,485	415,485	0
Equipment - Dwelling	60,767	60,767	0
Accumulated Depreciation	(8,202,869)	(7,546,228)	(656,641)
Construction In Progress	6,795,215	6,675,244	119,971
Total	8,190,826	8,727,496	(536,670)

Land, building and equipment from Capital fund activities has remained the same. Accumulated depreciation has increased by \$656,641 and CFP activities increased by \$119,971, so that BHHC's net property and equipment value decreased by \$536,670.

Economic Factors

The Housing Commission's primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by Federal budget than by local economic conditions. The capital budgets for 2005 fiscal year have already been submitted to HUD for approval and no major changes are expected.

The Capital fund programs are multiple year budgets and have remained relatively stable. Capital Funds are used for the modernization of public housing properties including administrative fees involved in the modernization.

Significant economic factors affecting the Commission are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental.
- Income Inflationary pressure on utility rates, supplies and other costs.

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Benton Harbor Housing Commission
721 Nate Wells Drive
Benton Harbor, Michigan 49022

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Benton Harbor Housing Commission as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Commission has been involved in a Home Ownership Program, however, has not discerned the level of involvement or whether the program is a part of the primary government or a component unit. The Governmental Accounting Standards Board (GASB) has issued statement No. 39, *Determining Whether Certain Organizations Are Component Units*, effective for all years ending after June 15, 2003. GASB 39 provides guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires at a minimum, reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the governmental unit. The Benton Harbor Housing Commission Home Ownership Program had a loan pool of \$ 1,000,000, and cash in the bank in excess of \$ 200,000; none of these funds or activity has been reported by the Commission as either a blended or discrete presentation. In addition to the above concerns, none of the activity has been audited or provided by the Commission for audit.

Management has refused to provide appropriate written representations. Statement on Auditing Standards No. 85, *Management Representations*, requires the Commission's management (or Board) report in part the following: all related-party transactions; that all financial records and related data have been made available to the auditor; and, that no fraud which could have a material effect on the financial statements has occurred. The Commission's refusal to offer such representations centers in part on concerns over the above potential relationship with the Home Ownership Program, however, the Commission failed to agree to an audit scope expansion which could have determined the appropriateness of the potential component unit and related party transactions.

In my opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Benton Harbor Housing Commission as of September 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

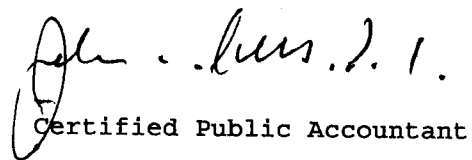
The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* as of October 1, 2003. This results in a change in the format and content of the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.


Certified Public Accountant

June 7, 2005

BENTON HARBOR HOUSING COMMISSION
Statement of Net Assets
September 30, 2004

ASSETS

C-3028

CURRENT ASSETS

Cash	\$	29,164
Accounts Receivable-Tenants, (net of Allowance for Doubtful Accounts \$ 17,323)		6,381
Accounts Receivable- Other		209,353
Investments		118,435
Prepaid Expenses		<u>59,950</u>
Total Current Assets	\$	423,283

NON CURRENT ASSETS

Land	\$	121,807
Buildings		9,000,421
Furniture, Equipment- Dwellings		60,767
Furniture, Equipment- Administrative		415,486
Construction in Progress		6,795,217
Accumulated Depreciation		<u>(8,202,869)</u>
Total Non Current Assets		<u>8,190,829</u>

TOTAL ASSETS

\$ 8,614,112

BENTON HARBOR HOUSING COMMISSION
Statements of Net Assets
September 30, 2004

LIABILITIES

C-3028

CURRENT LIABILITIES

Bank Overdraft	\$	83,189	
Accounts Payable		62,598	
Accrued Wages & Payroll Taxes		21,446	
Accounts Payable-Other Governments		26,422	
Tenants Security Deposit		59,666	
Deferred Revenue		14,094	
Accrued Liabilities-Other		<u>54,880</u>	
<u>Total Current Liabilities</u>	\$		322,295

NON CURRENT LIABILITIES

Non Current Liabilities-Other	\$	10,902	
Accrued Comp Absences-non current		<u>52,576</u>	
<u>Total Non Current Liabilities</u>			<u>63,478</u>
<u>Total Liabilities</u>	\$		<u>385,773</u>

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	8,190,829	
Unrestricted Net Assets		<u>37,510</u>	
<u>Total Net Assets</u>	\$		<u>8,228,339</u>

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended September 30, 2004

OPERATING REVENUE

Tenant Rental Revenue	\$ 642,558
HUD Grants	1,904,492
Interest Income	1,001
Other Income	<u>33,664</u>
<u>Total Revenue</u>	\$ 2,581,715

OPERATING EXPENSES

Administrative	\$ 834,889
Tenant Services	39,798
Utility Expenses	324,267
Ordinary Maintenance	720,280
Protective Services	65,880
General Expenses	<u>184,783</u>
<u>Total Expenses</u>	<u>2,169,897</u>
<u>Operating Income (Loss)</u>	\$ 411,818

NONOPERATING REVENUE (EXPENSES)

Casualty Losses	\$ (1,400)
Housing Assistance Payments	(488,069)
Depreciation Expenses	<u>(656,642)</u>
<u>Total Nonoperating Revenue (Expenses)</u>	<u>(1,146,111)</u>
<u>Change in Net Assets</u>	\$ (734,293)
Total Net Assets- Beginning	<u>8,962,632</u>
Total Net Assets- Ending	\$ <u>8,228,339</u>

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended September 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 636,044
Payments to Suppliers	(2,078,804)
Payments to Employees	(495,218)
HUD Grants	1,904,492
Other Receipts (Payments)	<u>34,665</u>
Net Cash Provided (Used) by Operating Activities	\$ 1,179

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(119,974)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (118,795)
Balance- Beginning of Year	<u>147,959</u>
Balance- End of Year	\$ <u>29,164</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (734,293)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	656,642
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	289,590
Investments	(117,628)
Prepaid Expenses	(2,961)
Changes in Liabilities Increase (Decrease):	
Bank Overdraft	(170,380)
Accounts Payable	718
Accrued Liabilities	114,589
Accounts Payable- Other Governments	(44,630)
Security Deposits	78
Deferred Revenue	<u>9,454</u>
Net Cash Provided by Operating Activities	\$ <u>1,179</u>

The Accompanying Notes are an Integral part of the Financial Statements

BENTON HARBOR HOUSING COMMISSION
Notes to Financial Statements
September 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Benton Harbor Housing Commission, Benton Harbor, Michigan, (Commission) was created by ordinance of the city of Benton Harbor. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 10-1,2,3,5, & 7	Low rent program	370 units
MI 33-V010-1,3	Section 8 Vouchers	128 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. As stated in the opinion, a potential component unit exists, however, the Commission failed to determine the relationship and failed to provide the data for audit.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The programs of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each program is accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual programs based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All the programs in the Financial Data Schedule are combined and reported as a single Enterprise fund.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Notes to Financial Statements- continued

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Checking Account	\$ 29,114
Petty Cash	<u>50</u>
Financial Statement Total	\$ <u>29,164</u>

Investments:

Money Market	\$ 118,435
--------------	------------

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 29,114	\$	\$	\$ 29,114	\$ 29,114
Petty Cash	<u>50</u>			<u>50</u>	<u>50</u>
Total Cash	\$ <u>29,164</u>	\$	\$	\$ <u>29,164</u>	\$ <u>29,164</u>
Investments:					
Money Market	\$ <u>118,435</u>	\$	\$	\$ <u>118,435</u>	\$ <u>118,435</u>

Note 3: Accounts Receivable.

Accounts Receivable consists of the following:

Accounts Receivable- HUD	\$ 201,510
Accounts Receivable- Miscellaneous	<u>7,843</u>
	\$ <u>209,353</u>

Notes to Financial Statements- continued.

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 121,807	\$	\$	\$ 121,807
Buildings	9,000,421			9,000,421
Furniture & Equipment-Dwellings	60,767			60,767
Furniture & Equipment-Admin	415,486			415,486
Const in Progress	<u>6,675,243</u>	<u>119,974</u>		<u>6,795,217</u>
	\$16,273,724	\$ 119,974	\$	\$16,393,698
Less Accumulated Depreciation	<u>7,546,227</u>	<u>656,642</u>		<u>8,202,869</u>
	<u>\$ 8,727,497</u>	<u>\$ (536,668)</u>		<u>\$ 8,190,829</u>

Note 5: Pension Plan

The Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65), employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

Note 6: Accrued Liabilities- Other.

Accrued liabilities other consist of the following:

Utilities payable	\$ 46,862
Accrued Compensated Absences-current	5,842
Accrued Liabilities-miscellaneous	<u>2,176</u>
	\$ <u>54,880</u>

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 28,462,000
General Liability	1,000,000
Errors & Omissions	2,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 10: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Benton Harbor Housing Commission

30-Sep-04

MI010

Combining Balance Sheet

Line Item #

ASSETS:

CURRENT ASSETS:

Cash:

	Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Drug Elimination Grant 14.854	TOTAL
111 Cash - unrestricted	14,262	14,902	-	-	29,164
112 Cash - restricted - modernization and development	-	-	-	-	-
113 Cash - other restricted	-	-	-	-	-
114 Cash - tenant security deposits	-	-	-	-	-
100 Total cash	14,262	14,902	-	-	29,164
Accounts and notes receivables:					
121 Accounts receivable - PHA projects	-	243	-	-	243
122 Accounts receivable - HUD other projects	-	32,443	163,798	18,234	214,475
124 Accounts receivable - other government	-	-	-	-	-
125 Accounts receivable - miscellaneous	7,600	-	-	-	7,600
126 Accounts receivable- tenants - dwelling rents	23,704	-	-	-	23,704
126.1 Allowance for doubtful accounts - dwelling rents	(17,323)	-	-	-	(17,323)
126.2 Allowance for doubtful accounts - other	-	(12,965)	-	-	(12,965)
127 Notes and mortgages receivable- current	-	-	-	-	-
128 Fraud recovery	-	-	-	-	-
128.1 Allowance for doubtful accounts - fraud	-	-	-	-	-
129 Accrued interest receivable	-	-	-	-	-
120 Total receivables, net of allowances for doubtful accounts	13,981	19,721	163,798	18,234	215,734
Current investments					
131 Investments - unrestricted	118,435	-	-	-	118,435
132 Investments - restricted	-	-	-	-	-
142 Prepaid expenses and other assets	59,950	-	-	-	59,950
143 Inventories	-	-	-	-	-
143.1 Allowance for obsolete inventories	-	-	-	-	-
144 Interprogram - due from	208,185	-	-	-	208,185
146 Amounts to be provided	-	-	-	-	-
150 TOTAL CURRENT ASSETS	414,813	34,623	163,798	18,234	631,468

NONCURRENT ASSETS:

Fixed assets:

161 Land	121,807	-	-	-	121,807
162 Buildings	9,000,421	-	-	-	9,000,421
163 Furniture, equipment & machinery - dwellings	60,767	-	-	-	60,767
164 Furniture, equipment & machinery - administration	377,842	-	17,030	20,614	415,486
165 Leasehold improvements	6,370,730	-	424,487	-	6,795,217
166 Accumulated depreciation	(8,163,539)	-	(32,459)	(6,871)	(8,202,869)
160 Total fixed assets, net of accumulated depreciation	7,768,028	-	409,058	13,743	8,190,829
171 Notes and mortgages receivable - non-current	-	-	-	-	-
172 Notes and mortgages receivable-non-current-past due	-	-	-	-	-
174 Other assets	-	-	-	-	-
175 Undistributed debits	-	-	-	-	-
176 Investment in joint ventures	-	-	-	-	-
180 TOTAL NONCURRENT ASSETS	7,768,028	-	409,058	13,743	8,190,829
190 TOTAL ASSETS	8,182,841	34,623	572,856	31,977	8,822,297

Benton Harbor Housing Commission

30-Sep-04

MI010

Combining Balance Sheet

Line Item #

Low Rent
14.850Housing
Choice
Voucher
Program
14.855Capital Projects
Funds 14.872Drug
Elimination
Grant 14.854

TOTAL

LIABILITIES AND EQUITY:

LIABILITIES:

CURRENT LIABILITIES

311	Bank overdraft	83,189				83,189
312	Accounts payable ≤ 90 days	61,758	840			62,598
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	21,446				21,446
322	Accrued compensated absences	5,842				5,842
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs					-
332	Accounts Payable - PHA Projects		2,176			2,176
333	Accounts payable - other government	26,422				26,422
341	Tenant security deposits	59,666				59,666
342	Deferred revenues	14,094				14,094
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	46,862				46,862
347	Inter-program - due to	-	26,153	163,798	18,234	208,185
310	TOTAL CURRENT LIABILITIES	319,279	29,169	163,798	18,234	530,480

NONCURRENT LIABILITIES:

351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	10,902				10,902
354	Accr. Comp. Absences-non current	52,576				52,576
350	TOTAL NONCURRENT LIABILITIES	63,478	-	-	-	63,478

300 TOTAL LIABILITIES

382,757	29,169	163,798	18,234	593,958
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EQUITY:

501 Investment in general fixed assets

Contributed Capital:

502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-				-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	7,768,028		409,058	13,743	8,190,829
508	Total contributed capital	7,768,028	-	409,058	13,743	8,190,829
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-	-
512.1	Unrestricted Net Assets	32,056	5,454	-	-	37,510
513	TOTAL EQUITY	7,800,084	5,454	409,058	13,743	8,228,339
600	TOTAL LIABILITIES AND EQUITY	8,182,841	34,623	572,856	31,977	8,822,297

Benton Harbor Housing Commission

30-Sep-04

MI010

Section 8
Housing
Choice
Voucher
Program
14.855Capital Projects
Funds 14.872
Drug
Elimination
Grant 14.854

Combining Income Statement

Line Item #

	Low Rent 14.850				TOTAL
REVENUE:					
703 Net tenant rental revenue	642,558	-	-	-	642,558
704 Tenant revenue - other	-	-	-	-	-
705 Total tenant revenue	642,558	-	-	-	642,558
706 HUD PHA grants	742,517	550,353	586,995	24,627	1,904,492
708 Other government grants	-	-	-	-	-
711 Investment income - unrestricted	939	62	-	-	1,001
712 Mortgage interest income	-	-	-	-	-
714 Fraud recovery	-	-	-	-	-
715 Other revenue	-	-	-	-	-
716 Gain or loss on the sale of fixed assets	29,960	3,704	-	-	33,664
720 Investment income - restricted	-	-	-	-	-
700 TOTAL REVENUE	1,415,974	554,119	586,995	24,627	2,581,715
EXPENSES:					
Administrative					
911 Administrative salaries	262,605	-	36,986	-	299,591
912 Auditing fees	4,700	43,976	-	-	48,676
913 Outside management fees	-	-	-	-	-
914 Compensated absences	3,890	-	-	-	3,890
915 Employee benefit contributions- administrative	97,603	18,000	36,717	-	152,320
916 Other operating- administrative	176,388	6,991	147,033	-	330,412
Tenant services					
921 Tenant services - salaries	-	-	-	-	-
922 Relocation costs	-	-	-	-	-
923 Employee benefit contributions- tenant services	-	-	-	-	-
924 Tenant services - other	17,882	-	21,916	-	39,798
Utilities					
931 Water	56,992	-	-	-	56,992
932 Electricity	113,838	-	-	-	113,838
933 Gas	153,437	-	-	-	153,437
934 Fuel	-	-	-	-	-
935 Labor	-	-	-	-	-
937 Employee benefit contributions- utilities	-	-	-	-	-
938 Other utilities expense	-	-	-	-	-
Ordinary maintenance & operation					
941 Ordinary maintenance and operations - labor	183,877	-	11,750	-	195,627
942 Ordinary maintenance and operations - materials & other	150,717	-	18,480	-	169,197
943 Ordinary maintenance and operations - contract costs	275,802	-	11,828	-	287,630
945 Employee benefit contributions- ordinary maintenance	67,826	-	-	-	67,826
Protective services					
951 Protective services - labor	-	-	-	-	-

Benton Harbor Housing Commission

30-Sep-04

MI010

Section 8
Housing
Choice
Voucher

Combining Income Statement

Low Rent
14.850Program
14.855Capital Projects
Funds 14.872Drug
Elimination
Grant 14.854

TOTAL

Line Item #

952	Protective services- other contract costs			41,253		41,253
953	Protective services - other				24,627	24,627
955	Employee benefit contributions- protective services					-
	General expenses					
961	Insurance premiums	116,522				116,522
962	Other General Expenses					
963	Payments in lieu of taxes	26,422				26,422
964	Bad debt - tenant rents	41,839				41,839
965	Bad debt- mortgages					-
966	Bad debt - other					-
967	Interest expense					-
968	Severance expense					-
969	TOTAL OPERATING EXPENSES	1,750,340	68,967	325,963	24,627	2,169,897
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(334,366)	485,152	261,032	-	411,818
971	Extraordinary maintenance	-				-
972	Casualty losses - non-capitalized	1,400				1,400
973	Housing assistance payments		488,069	-		488,069
974	Depreciation expense	625,709		26,810	4,123	656,642
975	Fraud losses					-
976	Capital outlays- governmental funds	-				-
977	Debt principal payment- governmental funds					-
978	Dwelling units rent expense					-
900	TOTAL EXPENSES	2,377,449	557,036	352,773	28,750	3,316,008
	OTHER FINANCING SOURCES (USES)					
1001	Operating transfers in (out)	141,058		(141,058)		-
1002	Operating transfers out					-
1003	Operating transfers from/to primary government					-
1004	Operating transfers from/to component unit					-
1005	Proceeds from notes, loans and bonds					-
1006	Proceeds from property sales					-
1010	TOTAL OTHER FINANCING SOURCES (USES)	141,058	-	(141,058)	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (U	(820,417)	(2,917)	93,164	(4,123)	(734,293)

BENTON HARBOR HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3028 Operating Subsidies	\$ <u>742,517</u>
* <u>CFDA 14.855 Housing Assistance Programs</u>	
C-3028 Section 8 Housing Choice Vouchers	\$ <u>550,353</u>
* <u>CFDA 14.872 Capital Projects Grants</u>	
C-3028 Capital Projects Funds	\$ <u>586,995</u>
<u>CFDA 14.854 Drug Elimination Grant</u>	
C-3028 Drug Elimination Program	\$ <u>24,627</u>
	\$ <u>1,904,492</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 28,462,000
General Liability	1,000,000
Dishonesty Bond	2,000,000
Worker's Compensation and other riders:	
minimum coverage's required by the State of Michigan	

BENTON HARBOR HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2004

The prior audit of the Benton Harbor Housing Commission for the period ended September 30, 2003, contained two audit findings; the corrective actions by the Commission are as follows:

- 1) Travel Policy Violations- Travel advances were not reconciled in a timely manner; this is a repeat finding.

BENTON HARBOR HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
September 30, 2004

Compliance

I have audited the compliance of Benton Harbor Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. Benton Harbor Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Benton Harbor Housing Commission's management. My responsibility is to express an opinion on Benton Harbor Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Benton Harbor Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Travel Policy Violations	03-1	Cash Management
HUD on Site Review	04-1	Activities Allowed or Unallowed; Cash Management
Excessive Accounts Receivable	04-2	Program Income
Cell Phone Abuses	04-3	Allowable Costs/Cost Principles
Invoice Approval	04-4	Procurement; Cash Management
Tenant Accounting Discrepancies	04-5	Eligibility; Program Income
Housing Choice Vouchers:		
Tenant Accounting Discrepancies	04-6	Eligibility

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

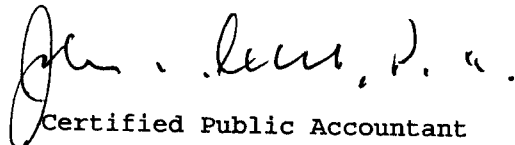
Internal Control over Compliance

The management of Benton Harbor Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Benton Harbor Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountant

June 7, 2005

BENTON HARBOR HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2004

I have audited the financial statements of Benton Harbor Housing Commission, Benton Harbor, Michigan, as of and for the year ended September 30, 2004, and have issued my report thereon dated June 7, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

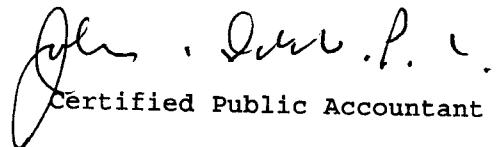
Compliance

As part of obtaining reasonable assurance about whether Benton Harbor Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Benton Harbor Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted instances which may be considered weaknesses that are required to be reported under Government Auditing Standards; the Commission failed to identify a potential component unit, and refused to issue a required management representations.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Certified Public Accountant

June 7, 2005

BENTON HARBOR HOUSING COMMISSION
Schedule of Findings and Questioned Cost
September 30, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Section 8 Housing Choice Program	X	
Capital Projects Grants	X	
Drug Elimination Grant		X

Opinions:

General Purpose Financial Statements-

Adverse

Material weakness(es) noted	<u> X </u> Yes	<u> </u> No
Reportable condition(s) noted	<u> </u> Yes	<u> X </u> No
Non Compliance material to financial statements noted	<u> </u> Yes	<u> X </u> No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	<u> </u> Yes	<u> X </u> No
Reportable condition(s) noted	<u> X </u> Yes	<u> </u> No
Non Compliance material to financial statements noted	<u> </u> Yes	<u> X </u> No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

Schedule of Findings and Questioned Cost- continued

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	03-1; 04-1; 04-2; 04-3; 04-4; 04-5
Section 8 Housing Choice	Yes	None	04-6
Capital Projects Funds	Yes	None	N/A
Drug Elimination Program	No	None	N/A

BENTON HARBOR HOUSING COMMISSION
Findings, Recommendations and Replies
September 30, 2004

The following findings of the Benton Harbor Housing Commission, for the year ended September 30, 2004, were presented for comment on October 4, 2005; the responses were provided by the acting executive director, Ms. Juanita Gibbs:

Finding 03-01

Travel Policy Violations-

The Commission's travel policy calls for all travel vouchers and supporting documentation to be submitted within ten (10) working days of the trip. Travel advances for Commissioner's exceeded 90 days at September 30, 2004; in addition, numerous errors in the reconciliations that were submitted.

The late reconciliation portion of this finding is a repeat finding.

Recommendation

The Commission establishes policies to insure compliance with rules and regulations consistent with Federal, State and Local ordinances; implementation and adherence is essential to a successful operation; the Commissioners are in violation of their own policy.

7 of 10 reconciled travel vouchers had mathematical errors; 6 of the 7 resulted in additional funds owed to the Commission.

One travel voucher for a Commissioner resulted in a per diem being paid to the Commissioner and charges for meals also charged to the Commission which resulted in an overpayment to the Commissioner.

I recommend all travel advances be cleared immediately; future violations of the policy should result in a loss of the privilege; the Commission must follow its own policy of reconciling all travel advances within 10 working days after the conference.

Reply

The Commission has a Travel Policy in place. In the policy, travel vouchers are submitted within ten (10) working days of trip. In the event that the reimbursement to the Commission has not been met, the amount will be withheld from the employee's pay. For Commissioners a letter will be sent, if there is no response, the President of the Commission will be notified.

I personally have no knowledge of the findings listed above. I have requested the auditor provide the pertinent information and the Housing Commission will be glad to clear up these findings.

Finding 04-01

HUD on Site Review-

HUD conducted an on-site review of the Commission July 2004 as a result of a substandard financial status as reported in the Public Housing Assessment System (PHAS). The review resulted in numerous findings. The major findings were as follows:

- Travel Policy Violations
- Budget Overruns
- Incomplete or Missing Inspections
- Emergency Work Orders not Remediated within 24 Hours

Recommendation

The findings reported in the review by HUD are consistent with findings discovered during the audit; a Memorandum of Agreement (MOA) was made with HUD in October 2004. Since the MOA, the Director, Attorney, and Fee Accountant have all been terminated; the new management has not had an opportunity to address the above findings since they no longer have any experienced personnel in key management or support positions.

I question the direction the Commission is taking- they currently have no fee accountant and no controller on staff, therefore, a troubled agency with known budget overruns has no accounting in place?; the Acting Director has not had any previous experience as a director and had been out of housing for a year just prior to the termination of the Director; the Commission had been awarded a Hope VI grant and is unable to handle the routine operations. It is unknown whether any or all of the above changes were recommended by HUD analyst or if these decisions are the responsibility of the Board; I question the logic and timing of these moves, these decisions have made resolution of the above findings almost impossible in the near future.

I recommend the Commission work with HUD to resolve the above issues.

Reply

Concerning Travel Policy, refer to Finding reply 03-01. Concerning Inspection Finding 04-06, we now have a new Maintenance Supervisor he is working intensely to complete all outstanding work orders and to assure that all emergency work orders are completed within a twenty four (24) hour period.

Finding 04-02

Excessive Accounts Receivable-

Average tenant accounts receivable based on units in possession at September 30, 2004, were \$ 64; average balance as of September 30, 2003, was \$ 46. HUD prescribes \$ 15 per unit average as acceptable.

Recommendation

An examination of the accounts receivable indicates that repayment agreements are not up to date, inconsistent court filings, late fees not being charged correctly, evictions not being made timely. The Board President personally requested the staff work with the residents and not pressure them into payment; the result is an unacceptable level of accounts receivable.

I recommend the Board not micro manage the staff or interfere with the day to day operations; the staff needs to do its job enforcing repayment agreements, filing late notices in court, evictions where necessary and consistent application of the Commissions policy concerning collections.

Reply

All rents are due and payable on the first (1st) of each month. After the fifteenth (15th) of each month a late fee will be assessed to the account. In the event a tenant falls behind in rent they are granted a one time per year payment arrangement and this procedure is enforced. We now have a new attorney, and all evictions are being filed on a monthly basis and judgments are being rendered.

I have no knowledge of the President personally requesting the staff not to enforce the rent collection rule. As Acting Director I have not encountered nor has the Board tried to micro manage the day-to day operations of the Housing Commission. Any questions the Board members may have are asked during Board meetings. If you have proof of the Board enforcing such rule I would like to have proof for my records.

Finding 04-03

Cell Phone Abuses-

A review of cell phone bills indicated that one phone number was being charged and no phone existed; after hour calls exceed the basic plan and not being charged to the employee, no accountability of personal use of company phones.

Recommendation

The charges for the non-existent phone occurred because an employee had been terminated but the cell phone account was not cancelled.

Other findings concerning the review of invoices will reveal that management and the Board are not paying enough attention to bills and pay invoices without question; the cell phone usage should be monitored and personal calls discontinued or reimbursed to the Commission.

Reply

We currently have in place system controls which has eliminated the over charge of the cell phones. All cell phones, other than those used by the Maintenance Supervisor and the Executive Director have been disconnected. We now use two-way radio service for our maintenance.

Finding 04-04

Invoice approval and Dual Signatures-

The Commission uses a dual signature on all cash disbursements, however, a majority of the time a Commissioner stamp is used. The stamp is in the possession of management.

Recommendation

Dual signatures are employed as an added internal control; by forcing another review by the second signer attempts to insure that the invoice and supporting documentation is examined and the check has been properly prepared. All invoices and bills are presented to the full board for approval, and yet, mistakes in the cell phone and travel reimbursements occurred. Use of a stamp in control of management defeats the purpose of the second signature; it is unknown whether the invoice was actually reviewed by the Commissioner.

The Board has an opportunity and responsibility to review all disbursements prior to payment since they are ultimately responsible for all the disbursements; I recommend the Board eliminate the use of a signature stamp or take control of the use of the stamp. I further recommend that more than a cursory review be made on cash disbursements- math errors and unquestioned cost by the Commission is evidenced by the budget overruns cited in finding 4-1 above.

Reply

Accounts payable clerk submits a list of bills to the Executive Director each month. After a review the Executive Director submits the list to the Board of Commissioners for approval. Any inquiries are handled before bills are approved.

The procedures of using a stamp is no longer in place. Two signatures are required for signing.

Finding 04-05

Tenant Accounting Discrepancies- Low Rent Program-

12 files were reviewed, the following discrepancies were noted:

- 6 files revealed over housing situations
- 5 files lacked proper third party verifications
- 2 files had incorrect medical deductions
- 6 files had incomplete or no inspections

Recommendation

The above discrepancies indicate a high percentage of errors in the sample; the errors could result in miscalculated rents, violate the inspection requirement as suggested in finding 4-1 above, and indicate housing discrepancies (under/over housing of residents).

I recommend the Commission implement a plan to review all tenant files and correct the known errors; in addition, management should spot check files during the year to insure compliance.

Reply

We have implemented a quality control procedure which requires the Deputy Director to review files thoroughly. we have found that this practice helps decrease errors. In addition we created a file check list that will help staff to place documents in the proper area in files.

Finding 04-06

Tenant Accounting Discrepancies- Housing Choice Vouchers-

7 files were tested, the following discrepancies were noted:

- 1 file used the wrong social security amount
- 4 files did not have rent reasonableness forms completed
- 5 inspections required landlord repairs; no indication that the required repairs were completed within 30 days as required by HUD

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

I would recommend the Commission correct the recertification process and implement a monitoring program to insure compliance with HUD requirements.

Reply

We now have a Quality Control system in place. The new file check list ensures that paperwork is properly placed in each file and will enable us to catch incomplete forms; inspections would then be forwarded to the Deputy Director. This will cut down on uncompleted work by landlords.